GOVERNMENT OF INDIA
FOOD PROCESSING INDUSTRIES
LOK SABHA

UNSTARRED QUESTION NO:4255
ANSWERED ON:19.08.2010
TAX STRUCTURE FOR FPI
Rao Shri Nama Nageswara;Thakor Shri Jagdish

Will the Minister of FOOD PROCESSING INDUSTRIES be pleased to state:

(a) the total number of food processing industries set up in the country, state- wise as on 31-06-2010;

(b) whether the primary agriculture commodities are mostly exempted from taxes and the processed foods are subjected to multiple levels.

(c) if so, the details thereof;

(d) whether the Government is contemplating to rationalize and simplify the tax structure and extend tax holiday for the food processing industry;

(e) if so, the details thereof;

(f) whether most of the units engaged in the food processing industries are unorganized; and

(g) if so, the steps taken by the Government to enhance the participation level in this sector along with the fiscal incentives provided to FPI?

Answer

THE MINISTER OF FOOD PROCESSING INDUSTRIES (SHRI SUBODH KANT SAHAI)

(a): The details of total number of food processing industries set up in the country, state-wise as on 31-06-2010 are at Annex 'A'.

(b): Yes, Sir. Primary agriculture commodities are mostly exempted from Central Excise Duty however, there is basic Customs Duty ranging between 5% to 100% on such commodities. On some commodities like wheat, rice, pulses, maize, barley, oats, edible oil crude, there is nil rate of Central Excise Duty as well as Customs Duty.

(c): Processed foods derived from primary farm products are exempted from levy of Central Excise duty but the Customs Duty is applicable at the rate of 30% ad valorem on commodities like vegetables, fruits, nuts and other edible parts of plants, prepared or preserved by vinegar or acetic acid, tomatoes prepared or preserved by vinegar or acetic acid, mushrooms and truffles prepared or preserved by vinegar or acetic acid, other vegetables prepared or preserved otherwise than by vinegar or acetic acid frozen, other vegetables prepared or preserved, vegetables, fruits, nuts, fruit peel and other parts of plants preserved by sugar, jams, fruit jellies, marmalades fruit or nut puree and fruit or nut pastes, obtained by cooking, whether or not containing added sugar or other sweetening matter, fruit juices (including grape must) and vegetable juices, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter, tea & coffee pre mix, sauces, ketchup and the like and preparations thereof, sweetmeats. However, sugar is exempted from Customs Duty.

(d): The Government has taken necessary steps to rationalize and simplify the tax structure for the food processing industry.

(e): On Income Tax side, 100 percent tax exemption for first five assessment years beginning with the initial assessment year is available under section 80-1B(11A) of Income Tax Act, 1961 to undertakings deriving profit from the business of processing, preserving and packaging of fruits or vegetables and new units in the business of processing, preservation and packaging of meat or meat products or poultry or marine or dairy products. Under sub-section (11A) of section 80-1B of the Income-tax Act, 1961 a deduction from profits up to specified amounts is allowed in the case of an undertaking deriving profit from the business of processing, preservation and packaging of fruits or vegetables or from the integrated business of handling, storage and transportation of food grains subject to specified conditions, if such undertaking begins to operate such business on or after the 1st day of April, 2001. With a view to preserving perishable food items like milk, poultry and meat, the Finance (No.2) Act 2009 has amended sub-section (11A) of section 80-1B with effect from 01-04-2010 to also provide tax holiday in respect of the business of processing, preserving and packaging of meat and meat products and poultry, marine and dairy products for units which begin to operate such business on or after 01-04-2009. The amount of deduction in a case of an undertaking deriving profit from the business of processing, preservation and packaging of fruits or vegetables or meat and meat products or poultry or marine or dairy products or from the integrated business of handling, storage and transportation of food grains, is hundred per cent of the profits and gains derived from such undertaking for five assessment years beginning with the initial assessment year and thereafter, twenty-five per cent (or thirty per cent where the assessee is a company) of the profits and gains derived from the operation of such business in a manner that the total

period of deduction does not exceed ten consecutive assessment years and subject to fulfillment of the condition that it begins to operate such business on or after the 1st day of April, 2001.

As far as Customs & Central Excise Duties and Service Tax are concerned, Central Government, on its part, has extended a slew of concessions to provide a fillip to the food processing sector in India. In Budget 2010-11 as a major initiative, 'Project Import' status, which allow imports at a concessional rate of 5% basic customs duty, has been conferred upon cold storage, cold room(including farm pre-coolers) or industrial projects for preservation, storage or processing of agricultural, apiary, horticultural, dairy, poultry, aquatic & marine produce and meat. Apart from this, 'Project Import' status has also been conferred on projects for installation of Mechanized Handling Systems & Pallet Racking systems, in mandis or warehouses for food grains and sugar. The initiatives taken by the central government to give a boost to the food processing sector in India are as under:

Customs:

1. Concessional customs duty of 5% on specified plantation machinery, which was available up to 06-07-2010, is being extended up to 31-03-2011.

2. Basic customs duty on specified agricultural machinery has been reduced from 7.5% to 5%.

3. Installation of mechanized food grain handling systems and pallet racking systems in mandis and warehouses for food grains and sugar has been notified under project imports. These projects now attract a basic customs duty of 5% + Nil CVD + Nil Special CVD.

4. Full exemption from basic customs duty has been provided to truck refrigeration units.

5. Cold storage/cold room (including for farm level pre-cooling) or industrial projects for preservation storage or processing of agricultural, apiary, horticultural, dairy, poultry, aquatic & marine produce and meat has been notified under project imports.

These projects now attract a concessional rate customs duty of 5%.

Central Excise:

1. Excise duty exemption on specified items intended to be used for the installation of a cold storage, cold room or refrigerated vehicle, for the preservation, storage, transport of agricultural produce has been extended to other sectors like apiary, horticulture, dairy, poultry, aquatic and marine produce and meat and their processing.

Service Tax:

1. Specific relief has been provided by way of Notification exempting the taxable service of technical testing and analysis service provided by a Central or State Seed testing Laboratory and service of technical inspection and certification of seeds by Central or State Seed Certification Agency notified under the Seeds Act, 1966 (54 of 1966) from the whole of the service tax leviable thereon.

2. Service or erection, commissioning or installation in relation to the following has been fully exempted from service tax, namely:

(a): erection, commissioning or installation of mechanized food grain handling systems;

(b): erection, commissioning or installation of equipment for setting up or substantial expansion of cold storage;

(c): installation and commissioning of machinery or equipment for initial setting up or substantial expansion of units for processing agricultural, apiary, horticultural, dairy, poultry, aquatic and marine products and meat.

(f): Yes, Sir. The Food Processing Units are both in organized as well as unorganized sector. The Small scale and unorganized sector constitutes about 70% of the food processing sector. Several steps have been taken by the Government to enhance the participation level in this sector. The Ministry has schemes for promotion of the food processing industry.

(g): The Scheme for Technology Upgradation/Establishment/ Modernisation of Food Processing Industries is aimed at creation of new processing capacity and up-gradation of existing processing capabilities, modernization of Food Processing Sector to include Milk, Fruit & Vegetables, Meat, Poultry, fishery, cereal, consumer items, oil seeds, rice milling, flour milling, pulse etc. The Ministry under the Scheme extends financial assistance to food processing units in the form of grant-in-aid @ 25% of the cost of plant and machinery and technical civil works subject to a maximum of Rs. 50.00 lakh in general area or 33.33% subject to maximum of Rs. 75.00 lakh in difficult areas such as Jammu & Kashmir, Himachal Pradesh, Uttarakhand, Sikkim and North Eastern States, A&N Islands, Lakshadweep and ITDP areas. In addition, under the Technology Mission for Integrated Development of Horticulture in North Eastern and Himalayan States, higher levels of assistance @ 50% up to Rs. 4.00 Crore for setting up and Rs.1.00 Crore for Up gradation of fruit and vegetables processing is available. A National Horticulture Mission has been launched with an objective to boost the horticulture sector. The Scheme for Human Resource Development focuses o n developing technologists, managers, Entrepreneurs and manpower for quality management in Food Processing. The scheme] also aims at development of rural entrepreneurship and transfer of technology for processing of food products by utilizing locally grown raw material and providing "Hands-on" experience at such production cum training centres, while according priority to SC/ST/OBC /minorities and women candidates.